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WHA/EPSC FOR FCORNIELLE; EEB/ESC FOR MMCMANUS; DOE FOR LEINSTEIN AND GWARD; TREASURY FOR AJEWELL

E.O. 12958: N/A
TAGS: [ENRG](#) [ECON](#) [EFIN](#) [PGOV](#) [PINR](#) [CO](#)
SUBJECT: TURMOIL FROM PYRAMID SCHEME CURBS SOUTHERN OIL PRODUCTION

REF: 08 BOGOTA 4263

¶1. (SBU) SUMMARY: Protests and strikes over the collapse of several pyramid schemes and the government's closure of the largest reputed scheme (reftel) have cut production of some oil producers in southern Colombia over 90 percent since November 2008. While the cuts did not prevent Colombia's overall oil production from reaching a six-year high of 624,000 barrels per day (bpd) according to the National Hydrocarbons Agency (ANH), they did stall several small-scale operations in Putumayo Department. With protests tapering off, national hydrocarbons company Ecopetrol announced January 6 it would re-open its Orito pipeline which has remained closed since November. Producers such as U.S.-incorporated Gran Tierra plan to resume normal operations as soon as possible. END SUMMARY.

¶2. (SBU) Following the collapse and government-imposed closure of several pyramid schemes in November, thousands of defrauded Colombians took to the streets to protest the GOC's failure to prevent the scams that are estimated to have swindled more than 500,000 Colombians out of as much USD 1 billion in savings. A majority of victims are reported to live in Colombian's southern departments, where two of the largest pyramid companies, DMG and DFRE, originated. The protests turned violent in mid-November with at least two reported deaths and numerous reports of property damage in Putumayo and Narino. As a result of the protests and a general strike by organized victims, economic activity in many areas of Putumayo, Narino, Cauca, and Huila departments ground to a halt.

¶3. (SBU) As a precaution to protect its oil transshipment facilities in Putumayo, Ecopetrol temporarily closed its Orito pipeline in November which ships oil from fields in Colombia's southern interior to Tumaco on the Pacific Coast. Alvaro Vargas, Ecopetrol's Vice President for Strategy and Growth, told us January 7 that the company has assessed that the civil situation has improved enough to resume shipments through the pipeline, allowing Gran Tierra, Petrominerales and other small producers to resume production.

¶4. (SBU) According to Edgar Dyes, Gran Tierra country manager, the pyramid scheme-induced disturbances and pipeline closure has brought the company's 13,000 bpd production to a virtual standstill. Dyes said the conditions had similarly affected several other small producers in the region, but speculated that some had resorted to high-cost shipment by trucks to maintain at least a reduced level of production.

Another company operating in the area, Canada-based Petrominerales, says it had to cut overall production 20 percent as a result of the unrest. Dyes told us that the opening of the pipeline is a key step to bringing production back on-line, but noted that the company continues to receive anonymous threats from the populace due to its close coordination with local authorities and the persistent anti-government sentiment from the pyramid fallout. Nevertheless, Dyes said the company has bolstered security and hopes to have production moving within two weeks.

¶5. (SBU) COMMENT: Despite the disruptions, Colombia still managed to raise its national oil production daily average to 624,000 bpd in November compared to 565,000 bpd during the same period in 2007 (Note: December production figures not yet tabulated. End Note). Unfortunately, the production falloff in southern Colombia coincided with the decline in world oil prices and put added pressure on Colombia's already strained royalty revenues. While the re-opening of the Orito pipeline is a welcome step and a concrete reflection of the gradually diminishing social uproar caused by the pyramid schemes, the two-month reduction in oil production represents one further cost to what has become one of Colombia's most expensive and disruptive scandals ever.

NICHOLS